INTRODUCTORY STATEMENT

PRESS CONFERENCE

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Executive Vice-President, Mr Dombrovskis.

The resurgence in coronavirus (COVID-19) infections presents renewed challenges to public health and the growth prospects of the euro area and global economies. Incoming information signals that the euro area economic recovery is losing momentum more rapidly than expected, after a strong, yet partial and uneven, rebound in economic activity over the summer months. The rise in COVID-19 cases and the associated intensification of containment measures is weighing on activity, constituting a clear deterioration in the near-term outlook. In fact, while activity in the manufacturing sector has continued to recover, activity in the services sector has been slowing visibly. Although fiscal policy measures are supporting households and firms, consumers are cautious in the light of the pandemic and its ramifications for employment and earnings. Moreover, weaker balance sheets and increased uncertainty about the economic outlook are weighing on business investment. Headline inflation is being dampened by low energy prices and muted underlying price pressures in the context of weak demand and significant slack in labour and product markets.

The monetary policy measures that we have taken since early March are helping to preserve favourable financing conditions for all sectors and jurisdictions across the euro area, thereby providing crucial support to underpin economic activity and to safeguard medium-term price stability. At the same time, in the current environment of risks clearly tilted to the downside, the Governing Council will carefully assess the incoming information, including the dynamics of the pandemic, prospects for a rollout of vaccines and developments in the exchange rate. The new round of Eurosystem staff macroeconomic projections in December will allow a thorough reassessment of the economic outlook and the balance of risks. On the basis of this updated assessment, the Governing Council will recalibrate its instruments, as appropriate, to respond to the unfolding situation and to ensure that financing conditions remain favourable to support the economic recovery and counteract the negative impact of the pandemic on the projected inflation path. This will foster the convergence of inflation towards its aim in a sustained manner, in line with its commitment to symmetry.

In the meantime, we decided to reconfirm our accommodative monetary policy stance.

We will keep the key ECB interest rates unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2 percent within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

We will continue our purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,350 billion. These purchases contribute to easing the overall monetary policy stance, thereby helping to offset the downward impact of the pandemic on the projected path of inflation. The purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. This allows us to effectively stave off risks to the smooth transmission of monetary policy. We will conduct net asset purchases under the PEPP until at least the end of June 2021 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over. We will reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2022. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Net purchases under our asset purchase programme (APP) will continue at a monthly pace of €20 billion, together with the purchases under the additional €120 billion temporary envelope until the end of the year. We continue to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates. We intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

We will also continue to provide ample liquidity through our refinancing operations. In particular, our third series of targeted longer-term refinancing operations (TLTRO III) remains an attractive source of funding for banks, supporting bank lending to firms and households.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP contracted by 11.8 percent, quarter on quarter, in the second quarter of 2020. Following the trough in April 2020, the euro area economy rebounded strongly in the third quarter, making up about half of the contraction in the first half of the year. The significant surge in coronavirus infection rates and the associated intensification of containment measures since the summer constitute clear headwinds to the short-term outlook. In fact, recent hard data, survey results and high-frequency indicators point to a significant softening in economic activity in the final quarter of the year. Moreover, economic developments continue to be uneven across sectors. In particular, activity in the services sector is slowing again as it is the sector most affected by the new restrictions on social activities and mobility. Looking ahead, while the uncertainty related to the evolution of the pandemic will likely dampen the strength of the recovery in the labour market and in consumption and investment, the euro area economy should continue to be supported by favourable financing conditions and an expansionary fiscal stance.

Overall, the risks surrounding the euro area growth outlook are clearly tilted to the downside. This largely reflects the recent resurgence in COVID-19 infections, the associated intensification of containment measures and a highly uncertain timeline of the pandemic and its implications for economic and financial conditions.

Euro area annual inflation decreased to -0.3 percent in September, from -0.2 percent in August, reflecting developments in the prices of energy, non-energy industrial goods and services. On the basis of oil price dynamics and taking into account the temporary reduction in German VAT, headline inflation is likely to remain negative until early 2021. Moreover, near-term price pressures will remain subdued owing to weak demand, notably in the tourism and travel-related sectors, as well as to lower wage pressures and the appreciation of the euro exchange rate. Once the impact of the pandemic fades, a recovery in demand, supported by accommodative fiscal and monetary policies, will put upward pressure on inflation over the medium term. Market-based indicators and survey-based measures of longer-term inflation expectations remain broadly unchanged at low levels.

Turning to the **monetary analysis**, broad money (M3) growth rose to 10.4 percent in September 2020, from 9.5 percent in August, thus remaining well above the levels recorded before the COVID-19 pandemic. Strong money growth continues to reflect domestic credit expansion and the ongoing asset purchases by the Eurosystem, as well as precautionary considerations which foster a heightened preference for liquidity in the money-holding sector. In this environment, the narrow monetary aggregate M1, encompassing the most liquid forms of money, continues to be the main contributor to broad money growth.

Developments in loans to the private sector continued to be shaped by the impact of the COVID-19 pandemic on economic activity. Following strong increases in the early months of the pandemic, the annual growth rate of loans to non-financial corporations stood at 7.1 percent in September, unchanged from August. This, however, masks a moderation in recent monthly loan flows. The annual growth rate of loans to households edged up to 3.1 percent in September, from 3.0 percent in August. Growth in loans to the private sector continues to benefit from historically low bank lending rates.

According to our bank lending survey for the third quarter of 2020, credit conditions on loans to firms tightened. While banks indicated that their funding and balance sheet conditions remain supportive, higher risk perceptions could weigh on their attitude towards loan creation. Surveyed banks reported a fall in firms' loan demand in the third quarter, reflecting a decline in emergency liquidity needs and weakening corporate investment. The survey indicates an increase in households' net demand for loans in the third quarter, while also suggesting the intention to tighten credit standards for households.

Overall, our policy measures, together with the measures adopted by national governments and European institutions, remain essential to support access to financing, including for those most affected by the ramifications of the pandemic.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is necessary to support economic activity and the robust convergence of inflation to levels that are below, but close to, 2 percent over the medium term.

Regarding **fiscal policies**, an ambitious and coordinated fiscal stance remains critical, in view of the sharp contraction in the euro area economy and the reduction in private demand. While fiscal measures taken in response to the pandemic emergency should, as much as possible, be targeted and temporary in nature, weak demand from firms and households and the heightened risk of a delayed recovery warrant continued support from national fiscal policies. The three safety nets endorsed by the European Council for workers, businesses and sovereigns provide important funding support in this context.

The Governing Council recognises the key role of the Next Generation EU package and stresses the importance of it becoming operational without delay. Provided the funds are deployed for productive public spending and accompanied by productivity-enhancing **structural policies**, Next Generation EU will contribute to a faster, stronger and more uniform recovery and will increase economic resilience and the growth potential of Member States' economies, thereby supporting the effectiveness of monetary policy in the euro area. Such structural policies are particularly important in addressing long-standing structural and institutional weaknesses and in accelerating the green and digital transition.

We are now ready to take your questions.

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Can I ask you about whether you have been discussing by how much you might enlarge your support programme by December, and which instruments you primarily have in mind? Is it an increase in APP or PEPP or both? Will it be a package?

Secondly, the Fed has been quite quick in adjusting with a new inflation target. Would you follow suit quickly as well, and would you also consider the Fed is doing that now to allow for an overshooting of inflation?

Lagarde: Well, thank you very much. Let me maybe take the opportunity of your question to summarise for you what the Governing Council at large was in full agreement upon. The full Governing Council was in total agreement to analyse the current economic situation and to recognise and acknowledge the fact that risks are clearly, clearly tilted to the downside. We all acknowledge the role and the importance as a driving force of the pandemic and the increase of contagion, as well as the impact that containment measures will have on the economy. So it is with that recognition and that acknowledgement that we agreed, all of us, that it was necessary to take action, and therefore to recalibrate our instruments at our next Governing Council meeting. So the teams, the committees, staff members are already at work in order to do this recalibration exercise, and this recalibration exercise will touch on all our instruments. It is not going to be one or the other. It is not going to be looking at one single instrument. It will be looking at all our instruments, how they interact together, what will be the optimal outcome, and what will be the mix that will best address the situation. Because we also all agreed that the aim that we are pursuing is to make sure that we can maintain favourable financing conditions in order to help with the recovery, and in order to also address the negative consequences resulting from the pandemic on our inflation path. So we will be looking at everything.

Now, in the meantime, we're not going to just stand still. We are going to use all the instruments that we have with the entire flexibility that we have, and I'm clearly here referring to PEPP more than others, to address the situation and to address any development of the situation. We have done that in the past. We have responded very promptly, very appropriately - very heavily, some would say - to the first wave that hit the euro area economies. We have done it for the first wave; we will do it again for the second wave. But don't assume that it will be one instrument; we're going to look at all of them, the combination of them all, to arrive at the best possible outcome to deal with the situation. As I said, with one aim, to make sure that we maintain financing conditions in order to support economic recovery, and in order to address the pandemic negative consequences affecting our inflation path.

I think you also asked me a question about our inflation target. Now, thank you for that, but you're a bit early, if I may say, because, clearly, we have a strategy review under way. We have resumed it now in September, and I'm very glad that we could do that, and that we could honour the work that is being prepared by staff here at the ECB, staff at the national central banks as well. They are actively cooperating and working along the way now with a solid schedule, but clearly, this is premature, because the inflation goal and the definition of it will come at a later stage. So I'm sure we'll come back to you with more clarification, but it's premature.

Is your estimate for fourth quarter GDP growth in the euro area is 3.1% quarterly growth. Do you think that is now too optimistic and do you think there is a risk of a double-dip downturn in the fourth quarter; growth going negative, in other words?

Secondly, I'm interested in why you've mentioned particularly in the press release in your opening statement that you'll be monitoring whether there's prospects of a vaccine being rolled out. How contingent is further loosening on the arrival of a vaccine?

Lagarde: As you know, the number for the third quarter will be coming out I believe tomorrow, and might surprise on the upside. On the other hand, we are pretty confident that our number for the fourth quarter will be on the downside. Now, why do I say that? Because, clearly, we expect the month of November to be very negative, and it will reflect the slow process that our economies are going to go under, and the lost momentum - the sort of slower momentum that we have been observing ever since September, actually, because when you look at all numbers, whether it's in the services industry, whether it's the consumer confidence, whether it is the PMI orders, the PMI employment, the slowdown and the reduced momentum has been apparent since September. It will clearly be aggravated in the month of November, given the measures that are being taken. So most likely our fourth quarter number will be to the downside. Will it be negative? We don't know at this point in time, because, clearly, what the outcome of the current containment measures in November will be, and what kind of bounce back we will observe in December, will clearly depend on the infection, the contagion increases, the containment measures’ efficacy, and so on and so forth. So it's very difficult to predict, actually, how the month of December will or will not offset the numbers for November, but we don't expect good numbers for November, obviously.

You had a second question that dealt with a reference that we make to the expectations of the rollout of vaccinations. We inserted that, because clearly, in an outlook that is fairly dark, and given what has been asserted yesterday by the European Commission, this is probably in terms of expectations and into 2021, because we don't refer to the vaccination in and of itself; we refer to the rolling out of it. That, hopefully, will have an impact and will give hope to those that are actually facing containment, that are facing a rather gloomy outcome.

You mentioned several times now the significant downfall of consumer confidence in several member states. How concerned is the ECB Governing Council that this may lead to deflationary pressures?

Secondly, you also referred to the problem that an emergency package by the European Union is agreed, but still not in operation. How concerned are you that this may come too late?

Lagarde: Well, as you know the inflation numbers for September are negative. We're talking about -0.3%, and it's little more of a negative number than we had in August, and when you analyse what are the forces behind it, you clearly see that it was driven by seasonal summer sales and the continuation of garment sales into the winter collections, basically, a fall in travel-related prices, and more negative energy inflation impact. So that's what's behind it. Now, we also believe that on the basis of the information we have, on the basis of the anticipated oil prices in particular, on the basis of the impact of German VAT reduction, headline inflation is likely to remain in negative territory until early 2021. Now, we don't call that deflation. You might find it surprising, but we call it negative inflation, precisely because we do not think that it is deflation. Deflation is a process that's self-fulfilling and that feeds on itself, and is not related to a one-off effect such as commodity price changes or a VAT change. So while we believe that those numbers will be low, those numbers will move back into positive territory as the recovery gradually takes hold in the course of 2021, which is what we all are looking forward to. So we are not foreseeing deflationary risk at all.

There was a second question which had to do with the Next Generation EU. I'll tell you what we have seen over the last six months or so is sort of a dual, hand-in-hand policy work between fiscal on the one hand, monetary policy on the other hand, and the fact that these two leverage off each other and iterated to really increase their potency and efficacy, has been a really welcome change, which had to do with, number one, the national authorities' determination to use their fiscal leverage and the fiscal space that some of them had in significant size, and the fact that the Europeans together decided to borrow jointly and to apply this yet-to-come borrowing to a combination of grants on the one hand, and loans on the other hand. Clearly, that has had a major impact, and I think it has really contributed to changing the sentiment, the image, the impression, and that most people observing Europe are having. Clearly, what is going to matter now is implementation, delivering, and making sure that these grants, and eventually these loans, actually reach their destination and come to finance both the support to the economy when it's needed, and the transformation of the economy, as it is called for, in the direction of green and digital. That is the reason why, at the end of the introductory statement that I have just read, we strongly encourage that agreement is reached between the European authorities, in order to make sure that there is full efficiency in the deployment of the funds, because this is what is going to have an impact on the real economy. So we hope that very much.

On TLTROs, you said in the statement that they are a very attractive source of funding for banks. Can you give us any idea whether you discussed how this instrument, how this tool can be made better, function better, as banks are facing multiple challenges and we see a mounting rise of non-performing loans.

My second question is on banks. Did the Governing Council discuss about the impact of the second wave and the second containment measures on European banks?

Lagarde: Let me just remind those who are listening what TLTRO is all about. TLTRO is a long-term refinancing scheme that is really intended to help the financing of the economy, because banks are offered very attractive terms, in order, and provided that, they lend to the economy. So it's not as if it was a very generous package of refinancing without any conditionalities, as I have heard in some corners. It is associated with conditionalities. The banks are going to only be eligible to the very attractive rate of -100 basis points, provided that they lend at least as much as they did to the economy. So that's number one. It's an encouragement to finance the economy, and all sectors of the economy, not just the large corporate accounts, but it has a special focus on small- and medium-sized enterprises, and through the enlargement of the collateral pools we make sure that it can also reach the professionals, the small entrepreneurs, the very small enterprises. As you know, it has had very successful take-up. If I remember, the June take-up was in excess of €1.3 trillion. So all in all, TLTRO, as structured, as calibrated, and with the incentive component that it has, has proven extremely successful. If you look now at the bank lending survey, the banks themselves are acknowledging that TLTROs have been critically important for them to continue extending credit to the economy. Third factor, if you look at the credit terms that are offered, you really see that interest rates offered to corporates and to households, currently at about 1.5% and 1.3% are at the lowest end of interest rates. If you look at the volume of credit, there has been a significant take-up of credit taken, demanded by firms and households. Now, that demand has slowed down a little bit lately, and we all saw that there was in the survey - and that's a survey indicator; it's not a fact; it's a survey - banks are anticipating that credit might tighten, particularly to the corporate sector. So we'll see. We are very attentive, and we will continue to monitor that, but the bottom line, it's a very attractive, well-calibrated instrument that has been very successful, that guarantees that interest rates be maintained at a very low level, and that credit be expanded in very large amounts.

Now, the impact of the second wave on banks is going to depend on the banks' situation. It's going to be a factor of their market size, their approach, their business model. But let me tell you something, we, the European Central Bank, and the whole Eurosystem will be extremely attentive, because our focus is twofold. We need to make sure that credit continues flowing in the economy. We need to make sure that the financing conditions remain favourable in order to support the recovery, and we need to make sure that there is ample liquidity around in order to respond to any kind of shocks, any kind of developments that we will see in the weeks and in the months to come. We will use the flexibility of everything that we have, and we will recalibrate using the solid data that we will gather, in order to make sure that we can actually do that.

Did any Governing Council member call for a policy action today? Did you discuss any change in your policy instruments today?

The second question is about your meeting schedule. In the spring you met quite frequently, sometimes every week. Do you have plans to increase the number of your meetings in the coming weeks? When is the next meeting going to be held, and what do you think you would need to see for the ECB to decide at an unscheduled meeting to take policy action, much like you did in March?

Lagarde: In response to your first question, which is extremely specific, no, we did not discuss at all any particular or specific change to any of the policy measures that we have in place. We all agreed; the whole Governing Council was in full agreement in recalibrating our instruments - it's laid out very clearly in the introductory statement - in order to reach the goals that we have. I'm not ruling out any of the tools that we have. I'm not ruling in any of the tools that we have. Staff of ECB and NCBs, as I said, are already working on this to arrive at the best possible mix, so that we can really reach the goals that we have assigned to ourselves.

The second question you had was about the frequency of our meetings. I have to tell you - although I personally regret, and I think all Governing Council members regret the times when we could sit down, when we could work late in the evening and end up with a working dinner on the Wednesdays - the benefit of working remotely is that we can easily meet using whatever of those devices. I don't want to do any advertising for any of them. But we can be together on very short notice to deal with multiple issues. There have been quite a few occasions, including recently, where we have addressed specific issues, where we've had seminars, where we've worked on preliminary discussions concerning our strategy review, for instance. So if and when it is needed, it's very easy, and we will continue to use those devices. We will continue to meet on a regular basis, and I can assure you that, despite this remoteness, we're very close to each other, and we have managed so far to maintain the good debate and the good discussions that eventually lead to as consensual-as-possible solutions, and this is clearly happening. So if we have to meet on short notice, we will do so. We stand ready for that.

Just to clarify, did I understand correctly that the Governing Council has agreed that there will be action in December; that there will be more stimulus; the only question is what exactly that will look like?

The second question is you kind of hinted at the rate of PEPP purchases - I think you were suggesting that the rate of purchases under the PEPP could be accelerated - is that correct? How likely is that, and by how much would you accelerate that?

Those are great questions, actually. Some of you might argue that I'm reading yet again, but I can't resist, because I think this paragraph is actually key. It's at the top of - I think you have it, actually, in the press release. It must be verbatim in there, but I will read it. I love reading. So it says this, 'On the basis of this updated assessment, the Governing Council will recalibrate its instruments' - will recalibrate its instruments - 'as appropriate, to respond to the unfolding situation and to ensure that financing conditions remain favourable to support the economic recovery and counteract the negative impact of the pandemic on the projected inflation path.' So you really have it all in there. This is a key sentence in the introductory statement. It hasn't escaped many of your attention, of course, but when we say we'll recalibrate its instruments, we are referring to all our instruments, so it's not PEPP-specific. PEPP is very instrumental. Let's face it, it's pandemic emergency purchase programme, so it is targeted, it is temporary, it is flexible. I'll come back to that in a second, but we are saying that we will recalibrate our instruments. It means what it means - all of them - and recalibrating means that we are going to identify what is the optimal way to use one or more of the instruments, several of them, and clearly, increase, extend, work on duration, work on volume, work on attractiveness. We will do all that, and as I said, the committees, members of staff, are already working on that.

Now, the second part of your questions had also to do with acceleration. I think you touched on something which is critically important in our pandemic emergency purchase programme, which is a very specific dimension that it has and that we want to maintain, and take advantage of if necessary, and that's flexibility. That flexibility applies across three dimensions, which will all be also examined. It's across classes of assets, across time, and across jurisdictions. Classes of assets I don't need to explain to you. We moved into commercial paper, for instance, across time. Well, we did frontload back in the early days of PEPP. If we have to frontload again we will do so. Across jurisdictions, clearly, we had to deviate from capital keys, more so at the beginning. As markets stabilised, and as the monetary policy transmission was much better, we tempered the deviation from capital keys and they have reduced, but if we need to use that aspect of the flexibility again, we will do so.

In this situation, could you explain to us a little bit the circumstances under which you wouldn't calibrate or add stimulus in December? You talked about headline inflation that it's going to be negative into early 2021. I know you also explained that this doesn't constitute deflation, but with a second recession coming, the further deterioration in the inflation outlook, are you not concerned that the euro zone is already in kind of a lowflation track or even deflation, per se?

Circumstances under which we would recalibrate. First of all, I would like to, yet again, mention that the Governing Council was in complete agreement on the fact that action will be needed and that recalibration is the right approach, to the extent that it applies to all our instruments in all their dimensions. What the circumstances will be will clearly be a function of, number one, the incidence of the pandemic, the pace at which infections continue and contagion develops, the containment measures that are taken almost every day and as we speak, the fiscal responses that will be also laid out in order to respond to the circumstances, and all that will lead to staff readjusting their projection, and providing scenarios, the baseline, and with the right assumptions behind such scenarios. So it's on the basis of that that we will determine whether the recalibration - how it plays out, and how it is best structured in order to respond to those circumstances, but we have little doubt, given what is expected as a result of the risks that we are seeing, that circumstances will warrant the recalibration and the implementation of this recalibrated package.

Your second question had to do with inflation. So I'll say what I have said already. The inflation numbers that we have for September, for August are in negative territory, -0.2% followed by -0.3%. Behind those numbers there are clearly specific, one-off factors, or very particular reasons. You have the combination of, for instance, the Italian garment sale, including not only the summer garments, but moving into the whole winter collection. You have the energy prices that are clearly weighing also on inflation. You have the discounted rates of travel services, and so on and so forth, but that is not going to be forever. Clearly, what we expect is in the course of '21, probably the latter part of '21, a recovery that will begin picking up and resulting in demand being stimulated yet again, particularly if we continue to have fiscal and monetary policy supporting this recovery.

At the ECB Listens event a few days ago Philip Lane said that he was open to the ECB dealing directly with the real economy, which I interpret to mean without using banks as intermediaries. I would just be interested on your views on that, what that might mean, and whether this is something that the Governing Council has discussed.

The second question is on fiscal stimulus. In light of the new containment measures and new risks to the economy, is the fiscal stimulus that's already been decided enough, or should governments that have the space to do more stimulus be doing so, and maybe is there even something more needed at the European level, although I realise the political difficulties with that.

Lagarde: First of all, I'm glad that you could listen to the ECB Listen event because I think that was a first and it was really encouraging and good to hear the sounds of non-governmental organisations, civil society representatives. I think it was unheard at the European Central Bank that cultural associations and NGOs could actually express their views and indicate what they expect. I think that we are actually dealing with the real economy. If you look at the way TLTROs have been structured, for instance, with a clear focus and incentive for banks to actually provide credit to the economy, provide credit to the entire sectors from the professionals to the single entrepreneur all the way to the large corporates. So I think that our focus is really to make sure that the economy recovers, that we as a central bank will provide the best possible financing conditions in order to support that effort. While focussing on price stability and the measurements that we have so far to deter'mine whether or not our goal has been attained, that we therefore support the economy. Was that intended to 'shortcut' the banks? I don't think so. I don't think that Philip would have said anything like that because clearly, the banks are a transmission channel that is critically important in order to make sure that our monetary policy reaches all sectors of society and of our euro area economies.

On the stimulus front, we are quite encouraged to have seen for the first time in many years fiscal and monetary work together. I remember the discussions we were having during the great financial crisis, where fiscal was lagging behind and was not in sync with the very necessary monetary policy that was deployed at the time. So now it's working hand in hand, if you will. When we look at the budgetary submissions, we clearly see that for the moment, the effort that is envisaged by member states is pretty much in '21 on a par with what was envisaged in 2020. In addition to that, there is the clear game-changer of the Next Generation EU, the resilience and recovery – or is it called… It's the RRF; it's the Recovery and Resilience Facility that is part of the Next Generation EU plan that has been agreed by the leaders of the – by the European Council, which is clearly going in the direction of jointly addressing the crisis, jointly borrowing and contributing particularly with the grant element of the package to the fiscal effort that is necessary in the present situation.

I very much hope that it continues into '21 given what we are facing. I wouldn't be, honestly, very surprised if there was more fiscal support undertaken at the national levels, given the situation and the worsening of the conditions that we are seeing at the moment.

If we see an economic recovery in the euro zone, some euro zone countries might recover faster than others. What will the ECB do against this fragmentation?

My second question would be: it's been almost one year since you took over at the helm of the ECB. How do you look back at your first year?

Lagarde: I think your analysis is correct and as part of this EU and certainly euro area recovery that we are all looking forward to and working hard for, some countries will emerge in a stronger place because some countries went into this pandemic and its economic consequences in a stronger place as well – which is why we all think around the table of the Governing Council that the Next Generation EU and the RRF are actually well designed to try to address the risk that you've identified. So that's on the fiscal front. As far as monetary policy is concerned, well, we have the tools to deal with fragmentation. If anything, what we have done from March up until now has been particularly efficient to actually make sure that monetary policy is properly transmitted, but the fragmentation risk is set aside and eliminated because it is the euro area.

Now, you're asking me about one year. First of all, I would say it has gone by unbelievably fast! Number two, it's been quite a ride and certainly not one that I was expecting. I've enjoyed it and I'm really pleased to try to do the best I can and to deploy all the energy that I have around the table and with staff which are producing an enormous amount of work, under very hard circumstances to help with the recovery and to make sure that, as I said, financing conditions are there in order to support the recovery.

The buzzword of this afternoon has clearly been recalibrate. I'd like to return to that briefly, if I may. Does that recalibration extend to looking at the composition of the tools at the Governing Council's disposal such as buying high-yield bonds, for example financial bonds or equity ETFs, as other central banks have done?

Then my second question was: are you afraid that the ECB could use all its firepower supporting the euro zone economy through this second phase of pandemic damage and leave little left to fuel the upturn?

Lagarde: Well, first of all, concerning this word recalibration, I think I've tried to explain it but I will try again, if this did not convince you. What we mean to say is; determine, instrument by instrument, a mix of instruments together, what is going to be the optimal response under the current circumstances and given the outlook that we are facing and that we will be facing with the new projections. Will that mean an increase? Will that mean an extension? Will that mean a variation of the terms of such or such other programmes? Will it mean a revision of some of the collaterals? All of it will be looked at, clearly, and recalibration there will be. That's what we say; expressis verbis, in the introductory statement.

You see, I don't really understand the use of, are you concerned that you will use all your firepower? I got pretty much similar questions much earlier on, when I was told that there was no tools in the box left any more, or that we had used all our powder and there was nothing left that we could do. Well, we've clearly demonstrated during the first wave of the pandemic that of course we could tailor new tools. Of course we could revisit them. Of course we could recalibrate, thinking of the TLTROs here – and we did so. Of course we could explore under the particularly exceptional circumstances what exceptional terms and conditions would apply. That was the case with flexibility applied to PEPP, which is different from what we have with other asset purchase programmes. So we have done it. The ECB was there for the first wave. The ECB will be here for the second wave, and we will deploy the same flexibility and in the meantime while we are working on this recalibration exercise that we have agreed.

I wanted to speak to you a little bit about your opening statement, where you mentioned that one of the things that you're looking at is the monitoring exchange rates. I can't remember a time you mentioned exchange rates so high up in your presentation.

As a follow-up question: when you're looking at your recalibration, how do your economists, how are you able to recalibrate when a number of things are out of your control – like the exchange rate, because you've said that you don't target it, and like the passage of fiscal policy? So how will that affect your deliberations on what happens in December, please?

Lagarde: I think there was complete agreement around the table today, again, to conclude that the most relevant and the driving factor to our revision come December, and that applies to both the projections as well as to our monetary policy, is actually the contagion, the COVID-19 cases, sometimes exponential developments as well as the containment measures that are taken as a result, and the economic consequences that it will have and probably way into '21, given the seriousness and the hardship of what is coming. While we are very attentive to the exchange rate and we recognise that the exchange rate may have a clear impact on inflation, we do not necessarily think at this point that this is the driving factor. There are exogenous factors that you cannot influence. When I look at the contagion rate, when I look at the containment measures, when I look at the support to vaccination, these are not things that a central bank can actually operate upon. What we can do is draw consequences from those developments that are external to us and take the necessary monetary policy actions in order to provide the best support to economic recovery. I think we have humility in that respect and we recognise that there are things that we simply cannot influence, but from which we can draw consequences in order to support the economy and maintain price stability.

You insist in unanimity that was necessary to take action, as expressed today by the Governing Council. The challenge will be to stay unanimous or close to, when the decision will come in December, and not to come out as a very deeply divided Council, maybe, as it was the case in the past. So do you have a good feeling of achieving this?

My second question: in a few days, American citizens will elect their President and I am sure you will be very attentive as a former resident of Washington on the outcome of this vote. As your press release does not mention anything on this topic, did you ever discuss today potential risks surrounding the possible chaotic consequences in the days or the weeks following the election?

Lagarde: I am only insisting on the fact that we were all in agreement around the table because it is quite unique to be able to have complete consensus and agreement on the analysis of the situation, especially when you see the very high IQs around the table and the different perspectives that people have, given their respective background, given their respective countries, and the disparities that there can be. But having said that, unanimity is not necessary to take action. The rules are the rules of broad consensus, generally. That's what we try to achieve. I for myself regard it as perfectly legitimate that we have different views around the table during the discussions, and that all views be expressed, be welcome, be discussed, and that at the end of it, we arrive at a conclusion that is broadly approved and agreed by members of the Governing Council. This is what we have achieved so far. It doesn't mean that it's unanimous or has to be unanimous every time. By the way, it gives a chance to those of you who like to pick and choose and figure out and find out who said what to whom. Some work to do.

Looking at the US Presidential election, of course it is not for us to have a view on the political aspect of what is going to result from the democratic process, which will take place on the 3rd November, and the outcome of that. But it's clearly together with the outcome of the Brexit negotiations one of the two large geopolitical risks that loom out there. The resolution of which will lead us in one direction or the other. We clearly have to take that into account in our assessment of the risks.

Now, given that Jean-Philippe, you are the last one to ask me a question, I would also like to express my support and sympathies to all those people who are suffering from COVID-19. That applies, clearly, to those who are losing loved ones and to those who are suffering themselves, because we keep talking about COVID-19 as if it was something totally external. But clearly, it has an impact on people and I just want, on behalf of the Governing Council as well, to express our sympathy for all of them.

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